



STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF FINANCIAL EXAMINATION  
of

**HEALTHWISE**

of  
Salt Lake City, Utah

as of  
December 31, 2005



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March 1, 2007

Honorable D. Kent Michie  
Insurance Commissioner  
State of Utah  
3110 State Office Building  
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2005, has been made of the financial condition and business affairs of:

**HEALTHWISE  
Salt Lake City, Utah**

A Health Maintenance Organization hereinafter referred to in this report as the "Organization". The examination was conducted at its administrative office located at 100 SW Market St. Portland, Oregon. The following report of examination is respectively submitted.

**Scope of Examination**

**Period Covered by Examination**

Representatives of the Utah Insurance Department (the Department) previously examined the Organization as of December 31, 2001. The present examination was conducted by Huff, Thomas and Company and covered the period from January 1, 2002 through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

A letter of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Organization's management at the conclusion of this examination.

**Examination Procedure Employed**

A coordinated examination of all companies in TRG was conducted in compliance with the NAIC Financial Condition Examiners Handbook. Representatives from the states of Idaho, Oregon, Utah and Washington participated on the examination. Oregon acted in the capacity of the lead state. The states participating in

the examination agreed to procedures and assignments identified in the "Memorandum of Understanding."

In conducting the examination, the examiners relied upon the independent audit reports, workpapers and the opinions contained therein rendered by Deloitte & Touche, LLP for the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective annual statements.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners for the purpose of determining the Organization's financial condition. Examination procedures included the verification and evaluation of assets, a determination of liabilities, and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

#### Status of Prior Examination Findings

The previous examination was performed by the Department as of December 31, 2001. Items of significance commented on in the prior examination report were resolved during the current examination period or have been disclosed in the "Summary" section of this report.

#### **History**

The Organization was incorporated on August 10, 1982, under the laws of the State of Utah as a capital stock, for profit, Health Maintenance Organization. The Organization commenced business as a separate entity on September 1, 1982, and was granted a Federal Certificate of Qualification on August 8, 1984.

Blue Cross and Blue Shield of Utah owned 100% of the outstanding stock of the Organization from January 1, 1982 to December 1986 at which time ownership of all corporations affiliated with Blue Cross and Blue Shield of Utah was transferred to BCSU Corporation. BCSU Corporation filed Articles of Dissolution on December 31, 1987, and ownership of the Organization reverted to Blue Cross and Blue Shield of Utah in January 1988.

In May of 1996, Blue Cross and Blue Shield of Utah announced its intention to affiliate with The Benchmark Group, an Oregon nonprofit corporation consisting of Blue Cross and Blue Shield plans located in the northwestern United States. On August 1, 1997, the Benchmark Group became known as The Regence Group (TRG). Blue Cross and Blue Shield of Utah's name was changed to Regence BlueCross BlueShield of Utah during December 1997.

#### **Capital and Surplus**

The Organization authorized 300,000 shares of stock each having a par value of \$10. The number of shares issued and outstanding as of year end 2005 were 23,336, which were all owned by Regence BlueCross BlueShield of Utah.

### **Dividend to Stockholders**

No dividends were declared or paid throughout the period of examination.

### **Management and Control**

#### **Board of Directors**

Pursuant to the Organization's Amended and Restated Bylaws, the number of directors of the Organization shall be no less than seven (7) and no more twelve (12). The President of Regence BlueCross BlueShield of Utah, or his nominee, must be one of these directors. Each director shall hold office until the next Annual Meeting of Shareholders and until his successor shall have been elected and shall qualify. Directors need not be a resident of Utah or a Shareholder of the Corporation.

Directors listed as serving and their principal occupation as of December 31, 2005 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Douglas Scott Ideson Salt Lake City, Utah	Regence BlueCross BlueShield of Utah President and CEO
Thomas H. Caine, M.D. Salt Lake City, Utah	University of Utah Medical Center Outside Provider
Dan L. Chichester, M.D. Salt Lake City, Utah	Private Practice Outside Provider
E. George Mantes Tooele, Utah	Mantes Chevrolet Co. President
Ed P. Mayne Salt Lake City, Utah	Utah State AFL-CIO President
Bryon Kent Clawson Centerville, Utah	Regence BlueCross BlueShield of Utah Vice President, Provider Services
Douglas James Hasbrouk, M.D. Riverton, Utah	Regence BlueCross BlueShield of Utah Medical Director

Jeanette Dian Rogers Sandy, Utah	The Regence Group Vice President & General Counsel
Alfred Samuel Tredway Salt Lake City, Utah	Regence BlueCross BlueShield of Utah Vice President of Sales
Russell Paul Warburton Murray, Utah	The Regence Group Director of Finance
Mark P. Stimpson Salt Lake City, Utah	Regence BlueCross BlueShield of Utah Human Resource Director

### Officers

Officers were of the Organization as of December 31, 2005, were as follows:

<u>Name</u>	<u>Title</u>
Mark P Stimpson	President/Chief Executive Officer
R. Paul Warburton	Treasurer
Jeanette D. Rogers	Secretary
D. Scott Ideson	Chairman of the Board
Alfred S. Tredway	Vice Chairman of the Board

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

### **Conflict of Interest Procedure**

The Organization has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or responsible employees, which is likely to conflict with his or her official duties. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No conflicts of interest were identified by the examination.

### **Corporate Records**

#### Articles of Incorporation:

No amendments were made to Articles of Incorporation during the period under examination.

### Amendment to the Bylaws:

On January 30, 2003 the Organization amended its Bylaws to reflect the following changes:

Article III, Board of Directors, Section 5) Annual, Regular and Special Meetings. The Annual Meeting shall be held on a day of each year within 90 days following the Annual Meeting of Shareholders for the purpose of electing officers and for the transaction of such business as deemed necessary by the Chairman of the Board.

Article V, Officer Section. Officers. The Officers of the Corporation shall be a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a President, a Secretary and a Treasurer. These officers shall be defined as "Elected Officers." In addition to these Elected Officers, the President may, with the approval of the Board of Directors, appoint one or more additional officer positions as deemed necessary, including one or more Assistant Treasurers and one or more Assistant Secretaries, and these Officers shall be defined as "Appointed Officers". The President shall advise the Board of Directors of the individual(s) appointed to each such position(s).

Any two or more offices may be held by the same person provided that at least three separate natural persons shall be Elected Officers of the Organization and the President may not hold the office of Secretary. The President shall have the authority to hire and terminate all Appointed Officers.

### Minutes

Minutes of the meetings of the members, directors, and committees were reviewed. The minutes indicated the Organization operates within the scope of its authority and the directors were properly informed of and participated in Organization affairs. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of members, directors, and committees adequately supported the Organization's transactions and events.

The May 22, 2003 minutes did contain evidence of presentation of the examination report as of December 31, 2001. This complies with the provisions of U.C.A. § 31A-2-204(8), which requires the Organization to promptly furnish members of the board of director's copies of the adopted report of examination.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance**

The Organization was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

### Surplus Debentures

The Organization had no outstanding surplus debentures during the examination period.

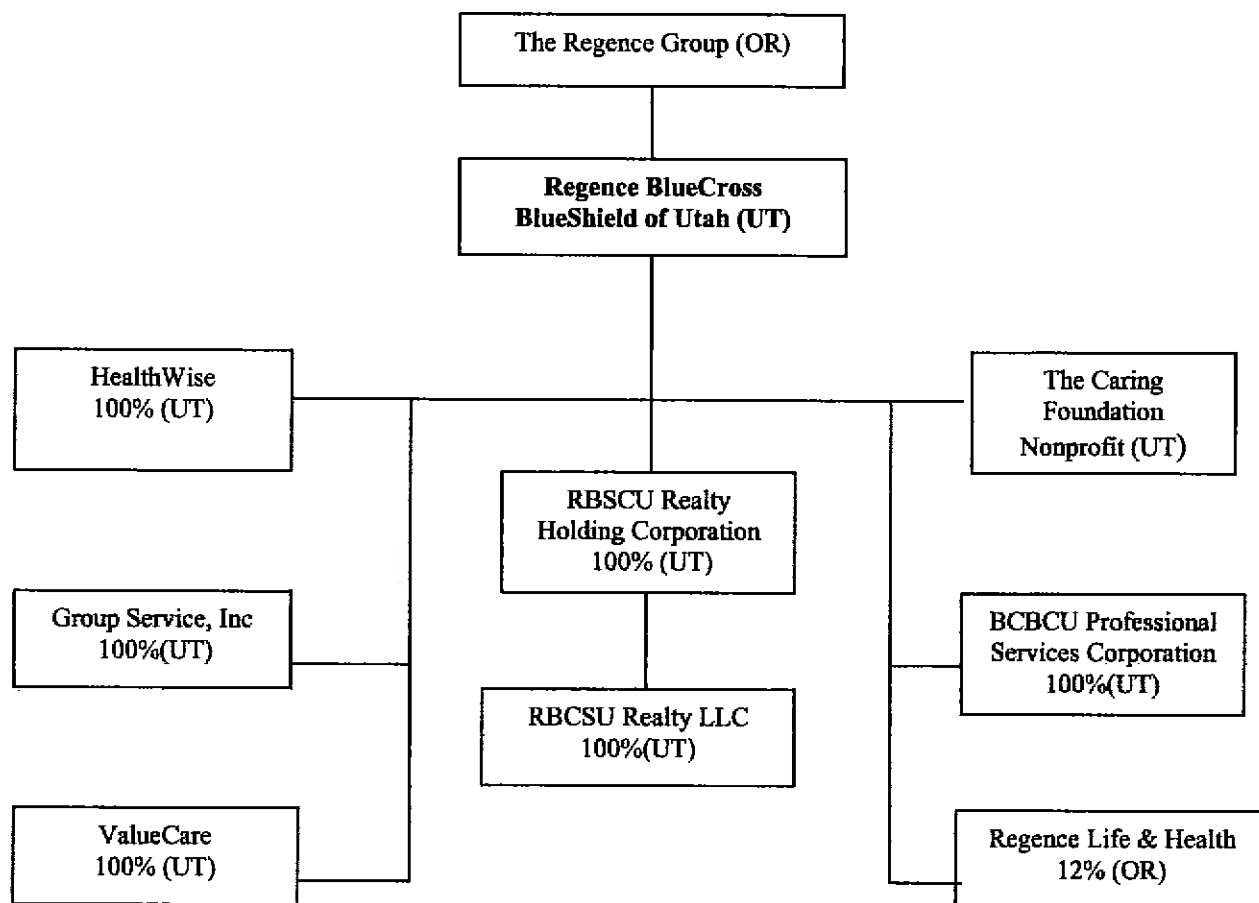
### **Affiliated Companies**

#### Organizational Structure

U.C.A. 31A-1-301(19) defined control as a person who holds, with the power to vote or proxies with the power to vote, 10% or more of the Organization's voting securities. TRG is the ultimate controlling person under the definition of the Insurance Holding Company Act. The Organization is a wholly owned subsidiary of Regence BlueCross BlueShield of Utah (RBCBSU), while TRG is the sole member of RBCBSU, a nonprofit corporation. TRG was also the sole member of Regence BlueCross BlueShield of Oregon and Regence BlueShield, a Washington nonprofit corporation, and managed Regence BlueShield of Idaho, Inc., under a management and administrative services agreement approved by the Idaho Insurance Commissioner.



The following organization chart illustrates the Organization immediate affiliate and direct upstream parentage relationships:



#### Agreements with Affiliates

The Organization had no ownership interest in affiliated companies. The following identifies the Organization's management and administrative agreements with affiliates, which define and control various aspects of the Organization's transactions and operations as of December 31, 2005.

#### Finance Agreement:

Effective September 1, 1982, the Organization entered into finance agreement with RBCBSU, its parent. The parent agreed to provide the Organization, pursuant to an inter-company financial agreement, initial and sustaining financial support and accept reinsurance of risk. Reinsurance is discussed below under the section of this report entitled "Reinsurance." The parent also agreed to provide, in the event of the Organization's insolvency, benefits to the Organization's members according to the Organization's certificates after allowing for any contributions from local, state or federal guaranty funds, until the expiration date of the certificates.

#### Operating Agreement:

Effective September 1, 1982, the Organization entered into operating agreement with RBCBSU, its parent. RBCBSU agreed to provide services under an operating agreement, including, but not limited to, marketing consultation, advertising and public relation consultation, billing and collection services, certificate accounting, general accounting, investment counseling and electronic data processing. RBCBSU also agreed to provide office space furniture, equipment, utilities, telephone service, office supplies and other services necessary for the Organization's continued operation.

#### Advance Agreement:

Effective September 30, 1997, the Organization entered into advance agreement with RBCBSU. Pursuant to inter-company advance agreements between Regence BlueCross BlueShield of Utah, HealthWise, ValueCare and Group Services, Inc., advances between the entities became subject to interest. The rate of interest was the prime interest rate as of January first of the calendar year.

#### Consolidated Tax Agreement:

The Organization was party to a consolidated federal income tax filing arrangement effective January 1, 1997. Parties to the agreement included TRG and its subsidiaries as listed on an addendum to the agreement.

### **Fidelity Bond and Other Insurance**

The Organization through its holding company, TRG, protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company. The bond has a single loss coverage limit of \$10 million, with \$100,000 retention. The bond meets the \$3.3 million suggested minimum coverage prescribed by the NAIC. The Organization also has executive liability coverage with a \$15 million limit and \$50,000 retention. Other major insurance coverages in force at December 31, 2005 are as follows.

Commercial Automobile  
Commercial Umbrella

Commercial Property  
Workers' Compensation

### **Pension, Stock Ownership and Insurance Plans**

#### **The Regence Group Retirement Plan**

The Organization participates in a defined-benefit pension plan sponsored by TRG that covers substantially all regular employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. The Organization also participates in a supplemental executive retirement plan sponsored by TRG to cover key employees meeting certain eligibility requirements. The plans are not funded by the Organization; they are funded by TRG. The Organization has no legal obligation for benefits under these plans; the obligation is carried by TRG. The Organization's share of net expense for the retirement plans was \$388,000 and \$404,000 for 2005 and 2004, respectively.

#### **The Regence Group 401(k) Plan**

The Organization participates in an Employee Savings Plan sponsored by TRG in which the Organization will match employee contributions up to 50% of the first 6% of salary for each pay period in which the employee makes a contribution. The Organization's contribution for the plan was \$66,000 and \$44,000 for 2005 and 2004, respectively.

#### **Post-retirement Benefits**

The Organization participates in a postretirement health and welfare plan sponsored by TRG for retired employees with fifteen or more years of continuous service, who were hired on or before January 1, 2004 and participated in active health plans at the time of retirement. Effective December 31, 2005, the Organization's postretirement benefits were consolidated to TRG. The plan has not been funded by the Organization, but it is funded by TRG. The Organization has no legal obligation for benefits under this plan; the obligation is carried by TRG. The Organization's share of net expense for the postretirement benefit plan was \$49,000 and \$55,000 for 2005 and 2004, respectively.

### Deferred Compensation Plan

The Organization offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of their compensation. The Organization has also adopted a Directors' Deferred Compensation Plan, which permits non-employee directors to receive their fees and retainers as members of the Board of Directors and committees of the Board in a form other than as direct payments.

### **Statutory Deposit**

The Organization's statutory deposit requirement was \$722,446, pursuant to U.C.A. § 31A-8-211. The examination confirmed the Organization maintained a \$675,000 statutory deposit consisting of the following for the benefit of all policyholders, claimants and creditors of the Organization. The statutory deposit was deficient by \$47,446 to cover the required deposit.

<u>State</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	State Deposits - US Treas Notes	\$ 675,000	\$ 671,220	\$ 663,786

### **Insurance Products and Related Practices**

#### Policy Forms and Underwriting

The Organization was at risk for group medical services under agreements with its subscribers, and provided medical services to non-insured groups from which it received medical reimbursements and administrative fees. It was also at risk for Medicare supplement benefits under agreements with individuals. The Organization retained all of its group dental and individual Medicare supplement business and \$50,000 of each risk for its group medical business.

#### Territory and Plan of Operation

The Organization operated solely in the state of Utah and was licensed to conduct business as an HMO class insurer.

New and renewal business for the various lines of business was solicited by outside, independent agents and in-house marketing representatives who worked with the outside agents. All sizes of groups and individual Medicare supplement business were targeted under this marketing system.

The Organization service area extends along the Wasatch Front from Payson to Brigham City. The Organization has contracts with 93% of the physicians and 42 hospitals along the Wasatch Front (excluding IHC hospitals).

### Advertising and Sales Material

The Organization provided no advertising specifically relating to it.

### Treatment of Policyholders

Complaints received by the Utah Insurance Department were maintained on a complaint log with the Organization's legal department. Formal procedures to handle written complaints were determined to be in place within the Organization.

### Agents Licensing

A review of licensed agents was performed to determine that they were licensed properly. No exceptions were noted.

## **Reinsurance**

### Assumed

The Organization did not assume business for the period covered by this examination.

### Ceded

The Organization ceded claims for incurred services that exceed \$50,000 per calendar year per member (excluding dental subscriber certificates and Medicare supplement contracts) to its parent, RBCBSU, under the financial agreement discussed in the section of this report entitled "Transactions with Affiliates." Provisions include a limit of one year on the run out of paid claims after the calendar year the claim was incurred, after which the parent would not be liable for any further claims. The premium for this coverage was 7.5% of earned subscriber premiums (excluding dental and Medicare supplement premiums).

## **Accounts and Records**

The Organization utilizes an electronic data processing and information system for purposes of recording data related to contractual obligations and financial transactions. This data provides the basis from which the various reports needed for operations are developed. Journals, registers, statistical records and other reports summarizing the financial transactions from operations are prepared daily as a function of recording data. After review, the summary amounts from the journals, register and reports are recorded on a general ledger by journal entry. General ledger account balances are reconciled to supporting data monthly. The general ledger provides the basic elements required for financial reporting.

A trial balance, as of December 31, 2005, was prepared from the Organization's general ledger. Account balances were traced to annual statement reports, exhibits, and schedules. Individual account balances were examined as deemed necessary.

The Organization's independent auditors issued unqualified opinions on the Organization's audited financial statements for each year during the examination period.

No material exceptions were noted when agreeing the Organization's audited financial statements to the respective annual statements. All of the independent audit work papers were made available to the examiners during the examination.

Accounts and records deficiencies included the following:

**1. Annual Statement Deficiencies**

The 2005 annual statement contained certain inaccuracies as noted, namely in the Exhibit of Net Investment Income, Schedule D, Schedule BA and Notes to the Financial Statements. These items were discussed with the Organization's management.

**2. Custodial Agreement**

The Organization's custodial agreement with Wells Fargo Bank does not fully comply with the revised version of Utah Administrative Code (U.A.C.) Rule R590-178-5, which became effective 90 days after the amendment date of September 19, 2006. Assets not in compliance with this rule shall be nonadmitted. The agreement is missing the following provisions:

- A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurance company's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator or other regulator of a trust company. A broker/dealer shall secure and maintain insurance protection for each insurance company's securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's securities. The commissioner may determine whether the type of insurance is appropriate and the amount of coverage is adequate
- The custodian shall provide written notification to the insurance company's domiciliary commissioner if the custodial agreement with the insurance company has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three (3) business days of the receipt by the custodian of the

insurance company's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

- Broker/dealers are not authorized to hold securities that are used to meet the deposit requirements set forth in U.C.A. § 31A-2-206(2).
- The custodian's annual report of the insurance company's accounts shall also be provided to the insurance company. Reports and verifications may be transmitted in electronic or paper form.

### **3. Inter-company Operating Settlement**

U.C.A. § 31A-2-203 (Examinations and alternatives) states "to effectively administer this section, the commissioner shall (c) use examination management techniques similar to those outlined in the Financial Condition Examination Handbook of the National Association of Insurance Commissioners."

The 2006 NAIC Financial Condition Examiners Handbook audit scope for Receivable and Payable from/to Parent requires a review of settlements between related parties to determine the reasonableness and consistency of settlements. In addition, the audit scope requires procedures to verify the collectibility of the reported liability. The Utah entities do not settle intercompany balances between themselves. As a result, this audit scope could not be performed for the Utah companies.

Furthermore, the Amendment to the Operating Agreement between the Organization and BlueCross BlueShield of Utah, effective January 1, 1988, states that "In consideration for the performance of services by Blue [BlueCross BlueShield of Utah], HealthWise agrees to pay to Blue the actual allocated expenses calculated by Blue in accordance with generally accepted cost accounting principles. This amount is due and payable within thirty (30) days after the month in which expenses are incurred."

### **4. Key Bank Open Line of Credit**

On July 14, 2004 TRG and affiliate health companies have an unsecured open line of credit to borrow up to \$30,000,000 from KeyBank National Association. This was not disclosed in Notes to Financial Statement under Note No. 11(2) at year-end. The NAIC Annual Statement Instructions state that the Organization should disclose all pertinent information concerning outstanding debt and available lines of credit.

### **5. Allocation of Investment Expense**

All Regence companies only recorded amounts charged for external investment management services as investment expenses and therefore incorrectly reported zero balances for the remaining items under the Underwriting and Investment Exhibit Part 3 - Analysis of Expenses, Column 4. However, the internally accumulated costs

associated with investments were allocated across the lines under the same column of the annual statements.

“SSAP No. 70 paragraph 9 provides that any basis adopted to apportion expenses shall be that which yields the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios or similar analyses. Also SSAP No. 70 paragraph 5 provides that allocation of expenses for health insurers should be based on a method that yields the most accurate results.”

### **Financial Statements**

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

Balance Sheet as of December 31, 2005

Statement of Revenue And Expenses for the Year Ended  
December 31, 2005

Reconciliation of Capital and Surplus – 2002 through 2005



**HEALTHWISE**  
**BALANCE SHEET**  
**as of December 31, 2005**

Bonds	\$ 35,847,784
Preferred stocks	0
Common stocks	8,245,968
Real estate - Properties occupied by the company	0
Cash and short-term investments	2,874,121
Other Invested Assets	0
Receivables for Securities	44,195
Investment income due and accrued	427,393
Uncollected premiums and agents' balances	1,151,355
Amounts receivable relating to uninsured plans	458,895
Current federal and foreign income tax recoverable and interest thereon	75,954
Net deferred tax asset	402,786
Receivable from parent, subsidiaries & affiliates	6,872,160
Health care and other amounts receivable	0
Aggregate write-ins for other than invested assets	0
<b>Total assets</b>	<b>\$ 56,400,610</b>

**LIABILITIES**

Claims Unpaid	\$ 6,074,018
Unpaid claims adjustment expenses	187,464
Aggregate health policy reserve	28,144
Premiums received in advance	1,339,273
General expenses due and accrued	594,901
Amounts withheld or retained for the accounts of others	0
Remittance and items not allocated	9,288
Amounts due to parent, subsidiaries and affiliates	14,493
Payable for securities	11,014
Liabilities for amounts held under uninsured accident and health plans	0
Aggregate write-ins for liabilities	249,384
<b>Total liabilities</b>	<b>\$ 8,507,979</b>

**CAPITAL AND SURPLUS**

Common capital stock	\$ 233,360
	3,766,800
Unassigned funds (surplus)	43,892,472
<b>Total capital and surplus</b>	<b>47,892,632</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 56,400,611</b>

# HEALTHWISE

## STATEMENT OF REVENUE AND EXPENSES For the Year Ended December 31, 2005

Member Months	372,619
Premiums revenue	\$ 63,700,151
Underwriting deductions:	
Medical and hospital benefits	42,971,703
Claims adjustment expenses	2,490,597
General and administrative expenses	10,016,489
Total expenses	55,478,789
Underwriting income	8,221,362
Investment income (loss):	
Net investment income	2,419,348
Net realized capital gain (loss)	(86,878)
Total investment income (loss)	2,332,470
Other income (expense)	(458,723)
Net income or (loss) before Federal income taxes incurred	10,095,109
Federal income taxes incurred	3,527,097
Net income	\$ 6,568,012

# HEALTHWISE

## RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT 2002 through 2005

	2002	2003	2004	2005
Capital and surplus, December 31, previous year	\$ 29,965,020	\$ 31,481,262	\$ 35,977,508	\$ 41,123,593
Net income	2,677,796	3,198,753	3,078,494	6,568,012
Change in net unrealized capital gains (losses)	(747,776)	1,090,960	1,122,517	168,407
Change in deferred income tax	(50,000)	(266,747)	216,293	(38,000)
Change in nonadmitted assets	(362,374)	473,280	728,781	70,620
Aggregate write-ins for gains or (losses) in surplus	(1,404)	0	0	0
Net change in capital and surplus for the year	1,516,242	4,496,246	5,146,085	6,769,039
Capital and surplus end of reporting	<u>\$ 31,481,262</u>	<u>\$ 35,977,508</u>	<u>\$ 41,123,593</u>	<u>\$ 47,892,632</u>

### Capital and Surplus

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$47,892,632. Its authorized control level risk based capital requirement pursuant to examination was \$6,978,294.

**Comments on the Financial Statements  
Summary of Comments and Recommendations**

The following is a summary of the comments and recommendations made in this report of examination.

Page	
10	<p><b>The Organization's statutory deposit was deficient by \$47,446 to cover the required deposit of \$722,446, pursuant to U.C.A. § 31A-8-211.</b></p> <p><b>In accordance with U.C.A. § 31A-8-211 it is recommended that the Organization maintain an adequate statutory deposit at all times for the benefit of all policyholders, claimants and creditors. It is also instructed to incorporate procedures to ensure that these deposits are not deficient in the future. (Statutory Deposits)</b></p>
12	<p><b>The 2005 annual statement contained certain inaccuracies as noted, namely in the Exhibit of Net Investment Income, Schedule D, Schedule BA and Notes to the Financial Statements.</b></p> <p><b>It is recommend the Organization hereafter comply with the provisions of U.C.A. § 31A-2-203 by filing complete and accurate annual statements in accordance with the instructions provided. (Accounts and Records)</b></p>
12	<p><b>The Company's custodial agreement with Wells Fargo Bank does not fully comply with the revised version of U.A.C. § R590-178-5, which became effective 90 days after the amendment date of September 19, 2006. Four provisions were not contained in the agreement. Assets not in compliance with this rule shall be nonadmitted.</b></p> <p><b>In accordance with U.C.A. § R590-178-5, it is recommended the Organization amend its custodial agreement with Wells Fargo Bank to include the aforementioned provisions. (Accounts and Records)</b></p>
13	<p><b>The Utah entities do not settle intercompany balances between themselves. As a result, this audit scope could not be performed for the Utah companies.</b></p> <p><b>It is recommended that the Organization settle its intercompany receivable and payable balances within 30 days after the related expenses are incurred, in order to comply with the provisions of NAIC Examiners Handbook and the amended Operating Agreement between the Organization and Regence BlueCross BlueShield of Utah. (Accounts and Records)</b></p>

13	<p><b>On July 14, 2004 TRG and affiliate health companies have an unsecured open line of credit to borrow up to \$30,000,000 from KeyBank National Association. This was not disclosed in Notes to Financial Statement under Note No. 11(2) at year-end.</b></p> <p><b>In accordance with U.C.A. § 31A-2-203 (6) it is recommended that the Organization disclose in Notes to Financial Statement No. 11 all pertinent information concerning outstanding debt and open lines of credit during the statement period. (Accounts and Records)</b></p>
15	<p><b>All Regence companies only recorded amounts charged for external investment management services as investment expenses and therefore incorrectly reported zero balances for the remaining items under the Underwriting and Investment Exhibit Part 3 - Analysis of Expenses, Column 4. However, the internally accumulated costs associated with investments were allocated across the lines under the same column of the annual statements.</b></p> <p><b>In accordance with SSAP No. 70 paragraph 9 it is recommended that the Organization record allocation of investment expenses under Underwriting an Investment Exhibit Part 3. (Accounts and Records)</b></p>

**It is recommended the Organization take immediate steps to implement procedures that will eliminate these deficiencies for future operations.**

### **Acknowledgment**

The cooperation and assistance extended by the officers and employees of the Organization during the examination process are gratefully acknowledged.

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Respectfully Submitted,



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